

OUTLOOK

A Publication Of The South Dakota Retirement System

Number 2 August 2006 • 1-888-605-SDRS

Powerful Tools for Retirement Planning

New Features Expand SDRS Service to Members

Wondering what your SDRS benefit will be if you retire in five years instead of 10? Need to know how to apply for benefits or change beneficiaries? Whether you need a quick response or a detailed explanation, finding answers is made easier with new features that enhance SDRS' member service.

Toll-free Line Enhances Member Service

Members across the state and around the country can now call SDRS toll-free by dialing 1-888-605-SDRS. The new number is answered by the same friendly, knowledgeable SDRS staff members as the system's local line, (605) 773-3731.

"In addition to visiting the SDRS Web site or talking to their authorized agents, members can also call toll-free for answers to their questions," says Damian Prunty, SDRS'

director of operations. "SDRS staff are available from 8 a.m. to 5 p.m. (CST) Monday through Friday and are always happy to help."

Personalized Planning Tools Available Online

A new calculator on the SDRS Web site (www.sdrs.sd.gov) gives members a way to estimate their

monthly retirement benefits under various circumstances.

"By logging in through *My SDRS*, the secure members-only section of the Web site, members can use the calculator to project the effect of different retirement dates, years of credited service and final salary on benefit size," says Prunty. "And this SDRS service is personalized — the calculator automatically uses up-to-date information about each member's credited service and final average compensation to show the impact a few more years of work or the purchase of credited service can have on a benefit amount."

SDRS also makes it easy for members to determine how much income they'll need in retirement. The SDRS site

Members across the state and around the country can now call SDRS toll-free by dialing 1-888-605-SDRS.




continued on page 2

New Features Expand SDRS Service to Members...continued

"In addition to visiting the SDRS Web site or talking to their authorized agents, members can also call toll-free for answers to their questions."

now includes a link to "Choose to Save Ballpark E\$timate," which features online worksheets that can help you estimate your retirement income needs.

"Members can use the SDRS benefit calculator to estimate the amount of their SDRS benefit, then enter that estimate into the Ballpark

worksheet to get a more accurate picture of what retirement needs to plan for," says Prunty. "SDRS makes these free tools available to members as part of its commitment to member service. We encourage all members to use them as they make retirement decisions." 

Fiscal Health Sustained Through Prudent Management

Through Good Times and Bad, Members Can Rely on SDRS

Open any newspaper published over the past couple of years and you're likely to read about troubled pension funds. Although financial markets have recovered much of the ground lost early in this decade, the bear market of 2000–2002 still casts a long shadow over many of the nation's retirement systems.

Retirement systems depend on contributions and on investment income to pay benefits. When investment returns fall below expected rates, the ratio between a system's financial resources and promised benefits — the funded ratio — declines. Unlike SDRS, which weathered the bear market well, the funded ratio of some public retirement systems has plummeted. Without a huge influx of cash, large gains in investment returns or significant reductions in benefits, these systems may have to make adjustments in order to pay the benefits their members expect.

Unbalanced Books

The equation for a fiscally healthy retirement system is simple: Over

the long term, contributions plus investment returns must equal promised benefits. Yet judging the proper balance among the three factors is tricky. Systems continually evaluate market trends, actuarial assumptions and system performance in their efforts to secure long-term financial stability while paying the largest benefits reasonable. During the bull market of the '90s, investment returns soared and anticipating a financial future based on high rates of return seemed justified. With investments generating substantial income, few systems thought it necessary to maintain contributions, or to postpone making benefit improvements.


But when the bubble burst and investment returns traveled south, many retirement systems found themselves long on promises and short of cash.

SDRS' Steady Balance

Compared to other public retirement systems nationwide, SDRS is among the most financially robust, with an outstanding funded ratio.

How did SDRS manage to survive the market downturn of recent years in such good shape? Largely it was due to prudent management.

The first lifeline for SDRS during the market downturn was its reserve. The reserve is a fund designed to cover the costs of benefit improvements when times are good and protect the plan when experience is below expectations.

A second lifeline was the system's sound approach to improving benefits. It is SDRS' policy to improve benefits only when it has accumulated enough money to pay for them. Consequently SDRS was not tempted to bet that the bull market would last forever and promise members more than it could afford to pay. Such prudent management pays off in the long run, assuring both current and future retirees of a stable system capable of delivering promised benefits through good times and bad. 



1-888-605-SDRS

COLAs Counteract Inflation's Bite

Do you feel like you're spending more but buying less? That's the effect of inflation. After years of very modest increases in the inflation rate, the nation's core consumer price index — the cost of goods and services excluding food and fuel — has risen at an annual rate of 2.8 percent over the past six months.

It may not sound like much, but losing nearly three cents out of every dollar compounds over the years and significantly reduces the value of your money. A high rate of inflation can rapidly diminish the buying power of your benefit.

That is why SDRS includes a cost-of-living adjustment (COLA)

when calculating benefit payments. By increasing each benefit by 3.1 percent compounded annually, SDRS offsets inflation's eroding effect on retirees' income.

Not all retirement systems provide a COLA, and those that do calculate its rate in various ways. Most figure the amount of their COLA as a percentage of the consumer price index (CPI) with a ceiling set to limit the annual increase. Other systems tie their COLA to investment performance and pay it only when investment returns exceed an established benchmark.

For SDRS members, the Board of Trustees and the state Legislature

have established a fixed-percentage COLA that is applied consistently each year. This policy has proved to have a very positive effect on maintaining the value of benefits and ensuring the financial security of all retired SDRS members.

Like all features of SDRS, the COLA comes under the periodic scrutiny of the Board of Trustees to be sure it is fair and sustainable. Ultimately the ability of any system to provide any benefit relies on that system's fiscal health; SDRS members may feel both proud and secure that SDRS' current financial well-being is excellent. [OUTLOOK](#)

Past Decade's Inflation Rate Below Rate of SDRS' COLA

Average rate of inflation for 1996–2005: 2.6%

Fiscal year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Rate of inflation	2.8%	2.5%	1.6%	2.0%	3.7%	3.2%	1.1%	2.1%	3.3%	2.5%
SDRS COLA	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%



SDRS provides an annual cost-of-living adjustment of 3.1 percent, compounded. When the rate of inflation is less than 3.1 percent, members see an increase in the value of their SDRS benefit. When the rate of inflation exceeds 3.1 percent, the effect of inflation on an SDRS benefit is mitigated.

Inflation rate is based on the Consumer Price Index, which tracks changes in the prices of specified consumer goods and services to measure the purchasing power of money.

You should KNOW...



Social Security Statements Key in Retirement Planning

When can you afford to retire? Your annual Social Security benefit statement provides an essential part of the answer.

The statement includes an estimate of your Social Security retirement benefit, calculated for three different retirement ages. By combining this estimate with your estimated benefit from SDRS, you can project your income in retirement. This can help you decide how much, if any, additional money you need to save to provide

the retirement income you want.

In addition, Social Security benefit estimates are needed to determine the amount of your SDRS benefit under some SDRS options, such as the level income payment option. The statement also explains the Social Security disability and survivor benefits available to you and your family — valuable information at any age.

When you receive your annual Social Security statement, read it carefully. Make sure reported earnings and other information,

such as your name and date of birth, are correct. Quickly identifying mistakes makes them easier to correct, and uncorrected mistakes could prevent you from receiving the full Social Security benefits you have earned. Save the statement with other financial documents for planning purposes and for ease in calculating and coordinating your benefits from SDRS and Social Security.

Need a copy of your current statement? Visit www.ssa.gov or call 1-800-772-1213 (TTY 1-800-325-0778). **OUTLOOK**



Board Notes

The following is a summary of major issues that came before the SDRS Board of Trustees at its meetings on April 5 and June 7, 2006.

April 5, 2006

2006 Legislation

Wade Hubbard, SDRS general counsel, reported that all six of the board's proposed legislative changes were passed by the 2006 Legislature.

Jane Roberts, SDRS finance officer, stated that the Legislature made no changes to the system's fiscal year 2007 budget.

Financial Status

Matt Clark, state investment officer, reported the non-annualized return on SDRS investments for fiscal year 2006.

Interest on Withdrawn Contributions

The board set the effective rate of interest paid on contributions withdrawn from SDRS at 2.84 percent for FY 2007.

Reports and Discussions

The board voted to enter into a three-year contract with accounting firm KPMG to provide auditing services.

Jan Hartford of CEM Benchmarking presented information comparing SDRS' administrative costs and member services with those of similar public retirement systems.

The board voted unanimously to implement a trading issues policy for the

SDRS Supplemental Retirement Plan.

Following a presentation by Koren Holden, consulting actuary of Buck Consultants, the board unanimously adopted funding objectives relating to the system's funded status and funded ratio.

Rules Changes

The board voted to table one and accept all other proposed changes to SDRS rules as presented during the rules hearing.

Present: Elmer Brinkman, Brian Berglin, Carol Christianson, Tracy Dahl-Webb, Jason Dilges, Bryan Gortmaker, Laurie Gustafson, James Hansen, Ray Hofman, Louise Loban, Darwin Longieliere, KJ McDonald, Sandy Zinter, Justice Steven Zinter, and Matt Clark (ex officio).

Absent: Eric Stroeder and Wesley Tschetter.

June 7, 2006

Financial Status

Jane Roberts, SDRS finance officer, presented the FY 2008 budget, which was approved by the board and will go to the Legislature for final approval.

Matt Clark, state investment officer, reported the annualized investment return as of June 7, 2006.

Koren Holden, consulting actuary of Buck Consultants, reported on the system's reserve and cushion projections.

Reports and Discussions

Rob Wylie, SDRS administrator, recog-

nized retiring SDRS board members Carol Christianson and Bryan Gortmaker.

Dawn Smith, SDRS executive assistant, reported the election of James Johns (Class B Public Safety) and Chuck Holmstrom (teachers) to the SDRS Board of Trustees. Two incumbents — Louise Loban and Ray Hoffman — ran unopposed. Ray Hoffman will serve the remaining three years of the elected municipal official term and the other three trustees will serve four-year terms.

Rob Wylie and Koren Holden presented a review of SDRS funding policy, long-term benefit goals and current member issues.

Mr. Wylie and Ms. Holden led a discussion of Supplemental Retirement Plan administrative services and current trends in 457 plans.

Corey Landeen, executive director of the South Dakota State Employees Organization, presented resolutions regarding proposed changes in several policies.

The board appointed Mr. Wylie to continue to represent SDRS on the South Dakota Investment Council.

Present: Elmer Brinkman, Brian Berglin, Carol Christianson, Tracy Dahl-Webb, Jason Dilges, Bryan Gortmaker, Laurie Gustafson, James Hansen, Ray Hofman, Louise Loban, Darwin Longieliere, Eric Stroeder, Wesley Tschetter, Sandy Zinter, Justice Steven Zinter, and Matt Clark (ex officio).

Absent: KJ McDonald.



SDRS STATE-WIDE INDIVIDUAL COUNSELING SCHEDULE*

SCHEDULE DATE	COUNTY	LOCATION	ADDRESS	DEADLINE TO SCHEDULE**
August 15, 2006	Yankton	Yankton, Kelly Inn	1607 E Hwy 50	August 10, 2006
August 29, 2006	Dewey, Ziebach	Eagle Butte, Landmark Hall	S Main	August 24, 2006
September 5, 2006	McCook	Salem, REA Room	236 N Main	August 31, 2006
September 12, 2006	Beadle, Sanborn	Huron, Crossroads Hotel	100 4th Street	September 7, 2006
September 20, 2006	Spink	Redfield, Senior Center	728 Main Street	September 14, 2006
September 26, 2006	Hughes, Stanley, Sully	Pierre, Ramkota Hotel	920 W Sioux Ave	September 21, 2006
October 3, 2006	Harding, Butte	Belle Fourche, Community Center	1111 National Street	September 28, 2006
October 10, 2006	Clay	Vermillion, Wagner Alumni Center	1110 North Dakota Street	October 5, 2006
October 17, 2006	Davison, Hanson	Mitchell, Holiday Inn	1525 W Havens	October 12, 2006
October 31, 2006	Turner	Parker, Community Building	299 N Main	October 26, 2006
November 8, 2006	Union	Elk Point, Community Room	209 E Main	November 2, 2006
November 14, 2006	Bennett, Haakon, Jackson	Kadoka, Fire Hall	102 Main St	November 9, 2006
November 21, 2006	Lake, Miner	Madison, Karl Mundt Library	8th and Egan	November 16, 2006
November 28, 2006	Hand, Hyde	Miller, American State Bank	131 N Broadway	November 23, 2006
December 5, 2006	Lawrence	Spearfish, Holiday Inn	I-90 Exit 14	November 30, 2006
December 12, 2006	Campbell, Walworth	Mobridge, Wrangler Inn	820 W Grand Crossing	December 7, 2006

* See the SDRS Web site for a more complete schedule. ** Individual retirement counseling sessions must be scheduled before noon on this date.

OUTLOOK

Interview ... continued from page 6

Stroeder: Sure. The problem is that there's always a risk tied to investing. If the employee invests wisely and the markets are favorable, the account will grow dramatically over the years. But when markets drop, even professional money managers lose money, sometimes large amounts of money. Many money managers lost 50 percent of their assets in the market crisis that started in 2000. If you had a defined contribution plan and retired in 2002, you probably would have lost a large part of your nest egg.

Outlook: But SDRS members weren't affected by the downturn?

Stroeder: No. Poor investment returns did not diminish members' benefits. In fact, benefits continued to increase every year by the 3.1 percent cost-of-living adjustment.

Outlook: So why would anyone want to have a defined contribution plan?

Stroeder: Defined contribution plans are very attractive to employers. They are easier to explain and cheaper to administer. These plans also shift the investment risk to the employee.

Outlook: Isn't there anything good about a defined contribution plan for an employee?


Stroeder: A lump-sum dollar amount is more portable than a benefit based on years of service and final average salary, so employees who move quickly from job to job may in some cases be better served by a defined contribution plan. A pure defined benefit plan favors long-term employees.

Outlook: Does that mean that SDRS members who are short-term would be better off with a defined contribution plan?

Stroeder: No, because SDRS is not a pure defined benefit plan; it is a

hybrid. It includes the best features of both approaches — portability for members who stay in the system only a short time and an account that is protected from sudden dips in investment performance. In addition, SDRS offers the Supplemental Retirement Plan.

Outlook: Are you suggesting that SDRS gives members the advantages of both?

Stroeder: Yes. SDRS is a foundation benefit that provides a lifetime benefit while maintaining several features of a defined contribution plan. The Supplemental Retirement Plan (SRP) is a voluntary defined contribution plan and provides the valuable features of defined contribution plans. Together and combined with Social Security, SDRS and the SRP provide a secure and flexible benefit structure that can meet SDRS members' financial needs. 



South Dakota Retirement System
P.O. Box 1098
Pierre, South Dakota 57501

PRSRT STD
U.S. Postage
PAID
Permit #227
Sioux City, IA

*“SDRS guarantees its members ...
a monthly payment of a specific
dollar amount for life.”*



Eric Stroeder

OUTLOOK Interview

In recent months, the media has been reporting that several retirement systems in America are in financial trouble. Some of the stakeholders of those systems are hoping to solve their funding problems by switching to what's called a defined contribution (DC) plan. SDRS Board of Trustees member Eric Stroeder explains the differences between DC plans and plans like SDRS' defined benefit plan and discusses why SDRS offers both types of plans and features that benefit all.

Outlook: *Can you briefly explain the difference between defined benefit and defined contribution plans?*

Stroeder: A defined benefit plan like SDRS computes its benefits based on the member's service and salary and pays the benefit for the member's lifetime. The plan experience is based on the group and costs are shared by all. The plan has the investment risk and guarantees the benefit.

Outlook: *And the defined contribution plan?*

Stroeder: In its simplest form, a defined contribution plan is like a savings account. You, and sometimes your employer, regularly put

money into the account. The dollars you have in the account at the end of your career are what you have to cover the cost of your retirement.

Outlook: *So there's no guaranteed payment of benefits in a defined contribution plan.*

Stroeder: No. That's one of the important differences between a defined benefit plan, on which SDRS is based, and a defined contribution plan. SDRS guarantees its members a defined benefit, a monthly payment of a specific dollar amount, for life. So even if you live to be 120, you'll receive benefits until you die.

Outlook: *And with a defined contribution plan, when the nest egg is gone, it's gone.*

Stroeder: That's right. Employees in a defined contribution system have to plan from the beginning of their retirement how to make their money last through the rest of their lives.

Outlook: *But can't the employee invest the dollars in their account and significantly increase its size with earnings?*

... continued on page 5